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FM USEU BRUSSELS  
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INFO RUEHZN/ENVIRONMENT SCIENCE AND TECHNOLOGY COLLECTIVE  
RUCNMEU/EU INTEREST COLLECTIVE  
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UNCLAS SECTION 01 OF 02 BRUSSELS 000006

SENSITIVE  
SIPDIS

E.O. 12958: N/A

TAGS: [ECON](#) [EPET](#) [EUN](#)

SUBJECT: RUSSIA/UKRAINE - THE EU PERSPECTIVE

Sensitive but Unclassified - not for Internet distribution.

¶1. (SBU) Summary. The EU is ramping up engagement on the Ukraine/Russia gas dispute. Today, it dispatched a fact finding mission to Kyiv and convened an extraordinary meeting of the Permanent Representatives. Later this week, the College of Commissioners and Foreign Ministers will convene in Prague and the PermReps will reconvene on Friday. At this point, the EU does not seek to play a mediating role but rather to encourage the parties to continue negotiations. End Summary.

¶2. (SBU) The Czech EU Presidency called an extraordinary meeting of the Council's COREPER I committee in Brussels January 5 to discuss the Russian/Ukrainian gas dispute. A Commission spokesman said that a joint mission of the Czech Presidency and the Commission was hastily set up and departed for Kiev the morning of January 5. The Commission is represented by Commissioner Piebalgs's Chef de Cabinet, Andris Kesteris, and by the Director-General DG for Energy and Transport, Matthias Ruete. The Czech Presidency is represented by Minister of industry and trade Martin Riman and the Special Ambassador for Energy Security, Vaclav Bartuska.

¶3. (SBU) EU Energy Commissioner Piebalgs told Ambassador Silverberg on January 5 that he expects the EU will encourage Ukraine and Russia to sign a longer-term, more comprehensive transit agreement. He noted that the current transit agreement is only three pages long. In the past, Piebalgs said the EU has turned a blind eye to such shortcomings, but he now believes a comprehensive agreement is warranted and added that the Ukrainians are open to a longer-term agreement. He said that he would know more over the next few days -- following the report of the fact-finding mission. Nevertheless, he does not expect a resolution in January.

¶4. (SBU) Piebalgs believes the EU can handle a delay into February because demand is down this year, and most of the EU has adequate gas storage. He is, however, concerned about supplies to Bulgaria and Romania. Piebalgs excluded the possibility of the EU monitoring the flow of gas through Ukraine; they don't want to be in the position of pointing fingers at either party. He said the EU objective is to keep both parties negotiating toward a longer-term arrangement. (Note: A press release by the Czech Presidency said "The objective of our joint mission is to lead negotiations with Ukrainian government officials and representatives of gas companies." End Note.)

¶5. (SBU) Contacts who were present at the COREPER confirmed Piebalgs comments. Few details about the dispute are clear,

and the EU seeks to obtain more information before deciding if/how to proceed. One concern is the brevity of the transit agreement. There was general support for the fact-finding mission, which is scheduled to visit Kyiv January 5 and Moscow January 6, although there is some concern that because of the Russian holiday, little will be accomplished there. (Note: There are indications that the mission may actually meet Gazprom officials in Berlin rather than Moscow. End note.) Except for Lithuania, none of member states want the EU to play a mediating role. A contact from the Lithuanian PermRep said his government is concerned about the lack of reliable data; gas destined for Europe is disappearing and EU officials need to become more involved. He added that Ukraine President Yushenko sent a request to all member states seeking their support in the dispute. The COREPER I will reconvene on Friday, January 9 to discuss the findings of the mission.

16. (SBU) Econ Officers also spoke separately with Gazprom's local agents on January 5. From the Russian perspective, Gazprom is dependent on Ukraine both for transit and as a customer - Ukraine is Gazprom's second largest customer after Russia. According to the agents, Gazprom's CEO Miller and Naftogaz's Chairman Dubyna had negotiated a draft contract but this fell apart on December 31. Under the draft terms, the middleman - RUE - would be cutout and the price would be set in the range of \$235-250/tcm. Further, Gazprom would agree to advance 2009 transit fees to cover 2008 arrears. Gazprom is asking the EU and European leaders to pressure Ukraine to return to table under the auspices of Energy Charter obligations. Gazprom, however, does not seek EU mediation at this point. Gazprom's Deputy Chief Medvedev was

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visiting Paris and London on January 5, and planned to travel to Berlin January 6. Gazprom is hoping for a meeting with the EU delegation in Berlin or with EU officials in Brussels later this week.

Silverberg

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